

0425 - State Insurance Department

Interim Progress Report for the reporting period July 1, 2003 - December 31, 2003

Section I. Agency Update and Assessment

1. Emerging Issues at the Federal (National) or State level affecting the agency.

The national issue with the greatest potential affect on the Insurance Department is the increasing industry interest in and increasing Congressional focus on the creation of a Federal insurance regulator. The advent of a Federal insurance regulator would result in reduced state influence over the essential service this industry provides to the citizens of our state, and it would almost certainly result in substantial loss of state government revenue from this multi-billion dollar Arkansas industry. The Insurance Department is actively cooperating with the insurance departments of all other states in working to educate industry and the citizenry and the Federal Government as to the disadvantages this would bring to all involved. This is primarily achieved through the National Association of Insurance Commissioners (NAIC) where Arkansas has been a leader in insurance regulatory reform and in the improvement of regulatory services through technology.

As a law enforcement agency charged with enforcing the criminal fraud provisions of the Arkansas Insurance Code, the Insurance Department is actively involved in supporting certain Homeland Defense initiatives of the Federal Government. Of particular importance during the first half of FY04 has been cooperation in anti-money-laundering activities.

The Insurance Department is constantly working with other individual state insurance departments to provide better regulatory service to consumers and industry doing business in Arkansas. During the first half of FY04 Arkansas began monitoring an experiment in state regulatory deference being formulated by California, Florida, and Texas. If this effort proves to be as beneficial to consumers and industry as it promises to be, Arkansas is likely to join the program.

2. Status of any new initiatives funded from General Revenue or General Improvement funds in the 2003 Legislative Sessions and other changes made through General Legislation.

The Insurance Department is funded by Special Revenue.

3. Discuss significant factors internal and external to the agency affecting agency performance.

Statutory reporting requirements for some types of industry organizations affected the results on one performance measure in Program 2, Goal 1, Objective 1. Case loads of local prosecutors and courts are affecting the results on some performance measures in Program 3, Goal 1, Objective 1. Increasing prescription drug prices and other external factors are threatening to impact future performance measure results in Program 4. More comment is provided on this at the bottom of the final page of this report.

4. Provide comments on the usefulness and reliability of performance measures.

The Insurance Department made every effort during the formulation of its 5-year Plan to formalize those measures that have historically been the informal measures used to assess performance. Added to these were measures of general interest (such as number of licensed agents) which are not necessarily seen by the Department as measures of its performance, but which are clear indicators of Department workload and value to consumers and industry. Having now been through the preparation of the Department's first PBAS Interim Progress Report, we generally remain convinced of the usefulness and reliability of these Performance Indicators under the PBAS model, but we recognize that it may be necessary to modify some Annual Target values to achieve overall usefulness and reliability of the Department's performance measures.

5. Discuss significant uses of line item flexibility in this report period (agencies operating under Performance-Based Appropriations only).

The Insurance Department is firmly behind the move to performance based budget, and is committed to whole-hearted support of the effort. However, due to the small size of the Department, and given our limited PBAS experience to date, we are apprehensive that breaking what was previously the separate budget of the Department proper into two separate programs will tend to inflexibility rather than flexibility. Were those two programs combined, we believe that the increased flexibility, economy of use, and freedom to focus on mission under PBAS would be substantial.

Program 1: Administration and Regulatory Support

Goal 1: Effectively administer and support the regulatory activities of the other Programs.

Objective 1: Provide Department resources (management, personnel, systems and material) necessary to continue to improve consumer protection by insurance industry regulation in Arkansas.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	% of agency performance measures met.	76%	78%	
2	% of agency staff in Administration and support services as compared to total agency positions	30%	29%	
3	% of agency budget in Administration and support services as compared to total agency budget.	47%	35%	
4	Number of prior year audit findings repeated in subsequent audit.	0	N/A	Prior year audit report not received yet.
5	Agency information technology budget as a percent of total agency budget	4.70%	2.00%	
6	Implement all Commissioner approved National Association of Insurance Commissioners technology initiatives.	100%	100%	
7	Number of proprietary information systems maintained by agency staff or maintained through contractual services.	10	6	
8	% Gramm-Leach-Bliley (GLB) Financial Services Modernization Act-required changes in state regulation of insurance substantially complied with.	100%	100%	

Comments on performance matters related to Objective 1:

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 1: Protect insurance consumers.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	Percentage of resident agents meeting continuing education requirements	97%	N/A	Unable to provide information until new segment of computer program is added to our system
2	Number resident and non-resident agents with active licenses	43,200	46,076	
3	Average processing time for agent licenses (in days)	9.5	9.2	
4	Maintain full accreditation by annually achieving ever improving financial regulation standards.	100%	100%	
5	% of company applications for admission which were processed for initial response within 120 days.	75%	85.71%	AID implemented the use of electronic filing of applications during this time period.
6	% of domestic insurance companies required to be examined by Arkansas Statute, performed	100%	97.58%	Based on Calendar Year 2003, due to AR Statute & Accreditation Guidelines
7	Examinations performed as a % of domestic insurance companies licensed in Arkansas.	20%	17.65%	Based on Calendar Year 2003 (target 18%), due to AR Statute & Accreditation Guidelines
8	% of domestic insurance companies on which financial analysis reviews were performed	100%	100.00%	Based on reviews required as of Dec. 31, 2003.

Comments on performance matters related to Objective 1:

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 2: Inform and assist insurance consumers.

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	Number of consumer monetary awards resulting from investigation of complaints	\$1,980,000	\$1,480,543	75%
2	Number of consumer complaints filed	4,400	1,834	42%
3	% of consumer complaints closed	91%	97%	1,786
4	Number consumer calls received/handled	28,500	20,088	70%
5	% of Governor's Dislocated Worker Workshops participated in	96%	100%	33 Workshops held and attended

Comments on performance matters related to Objective 2:

Program 2: Insurance Regulation & Consumer Protection Program

Goal 1: Preserve State Regulation of Insurance through cooperation with the other States, and by conducting regulatory operations in such a manner as to provide the best insurance regulatory services possible.

Objective 3: Minimize State government insurance costs and losses

<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	Number of on site inspections and analysis of State owned facilities in order to develop enhanced real property appraisals.	1500	581	See Comment Below
2	% of insured State structures inspected to promote increased safety awareness and operating conditions, and to facilitate loss control and loss prevention.	50%	25%	
3	Number of Fidelity Bond Trust Fund contacts made.	1400	1798	Previously no record was kept as to the actual volume of work being performed in this area. Expect to revise target in next plan update.
4	Number of updates to Insurance Risk Assessment System (IRAS) property databases.	1600	2309	Previously no record was kept as to the actual volume of work being performed in this area. Expect to revise target in next plan update.

Comments on performance matters related to Objective 3:

Measure 1- Size and complexity of the properties being inspected determine the amount of time required. This has affected the Actual YTD value. Until recently still expected to be on target by end of year, but possible new responsibility for school property and vehicle programs may make it impossible for the Department to stay on target for the immediate future.

Effective 7-1-03, measure # 5 was added regarding the Arkansas Multi Agency Insurance Trust (AMAIT) Fund. The goal for this measure for 2004 was 100%. As of 1-1-04, this measure stands at 99%. The addition of the AMAIT Fund greatly increased the workload of this office, requiring some duties and priorities to be realigned.

Program 3: Insurance Fraud Investigation

Goal 1: To fully and equitably enforce the criminal fraud provisions of the Arkansas Insurance Code and the Workers' Compensation Law.

Objective 1: Investigate and prosecute fraudulent insurance code and Workers' Compensation Act violations.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	Review and assign referrals to an investigator within 48 hours of receipt.	85%	90%	
2	Investigation completed and closed or prosecution referred to local prosecutor prior to the expiration of the statute of limitation	100%	100%	
3	Prosecuting Attorney accept 80% of referred cases.	95%	0%	See Comment Below
4	90% conviction rate on arraigned cases.	95%	0%	See Comment Below

Comments on performance matters related to Objective 1:

Measure 3-During this reporting period, the Division referred eight (8) investigations to local prosecutor for prosecution consideration. All eight of the referred investigations are still under consideration by the local prosecutors. We expect that all eight will be accepted by the local prosecutors for prosecution, but anticipating future progress reports being due six weeks after the end of the reporting period, we may find difficulty in meeting our aggressive 95% target due to the full calendars of prosecutors.

Measure 4-During this reporting period, the Division had two (2) criminal cases arraigned in court. We are awaiting trial dates to be set by the courts. Again, with reports due six weeks after end of reported period, court workload could be a problem in meeting our aggressive target.

Program 4: Worker's Compensation for State Employees

Goal 1: Efficiently administer the public employee Worker's Compensation Program and minimize state employee injuries and claims costs.

Objective 1: To efficiently process claims and make an eligibility decision on 75% on new lost time claims within 15 days of receipt of the claim in Public Employees Claims Division

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>Actual YTD</u>	<u>Comments</u>
1	Percent of new claims with eligibility decisions within 15 days.	72%	76.83%	
2	State government worker's compensation benefit cost rate per \$100 of payroll	\$.47	\$0.45	
3	Administrative costs as percent of claim expenditures.	12%	11.26%	
4	Administrative costs per dollar amount of payroll	0.075%	0.0507%	

Comments on performance matters related to Objective 1:

In order to make determination of the compensability of claims under Arkansas law, one must review medical records in order to determine if a claim has objective findings of an injury. The confusion on the part of some medical providers about the effect of HIPAA on workers' compensation has hampered the Division's ability to obtain some medical records within the 15 day time frame. These providers are requiring separate HIPAA compliant authorization forms to release information which are different from the official Arkansas Workers' Compensation Commission forms. Medical utilization is increasing. Drug prices are increasing at a dramatic rate. The Division is managing to prevent significant indemnity cost increases despite benefit rate increases every year. We believe we could obtain decreases in indemnity costs if more state agencies would adopt an early return to work program.